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PACE Financing for Commercial Real Estate Companies

Money is often misunderstood…

George Caraghiaur - November, 2014

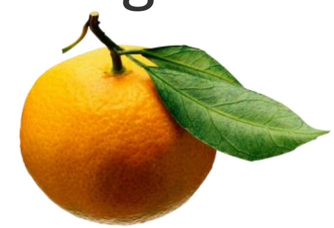
A Typical CFO Objection to PACE Financing

"You know, I just raised $300 million for 30 years at less than 4% interest rate. You tell me that I should use PACE financing that will cost me 7% for 20 years. You will understand my skepticism of your claim that this would be in my company's best interest..."

Let's Not Confuse Apples with Oranges

- **The Objection:** the CFO objection is based his company's cost of "corporate" debt.

- **PACE:** PACE funds represent project financing.



PACENow

The True Cost of Corporate Capital

- The money a corporation invests typically comprises two components: debt and equity.
- The true cost of corporate capital is the weighted average cost of the two components.
- Assuming a capital structure consisting of 50% debt and 50% equity, with a cost of debt of 4% and cost of equity of 12%, the weighted average cost of corporate capital is 8%:

Weighted cost of capital = (0.5 X 4%) + (0.5 X 12%) = 8%

The True Cost of Capital Allocated to Projects

✓ Corporate Capital is not infinite. For that reason, it is rationed to a company's projects using hurdle rates that are based on capital requests, relative importance and perceived risks.

Required Simple Payback	Effective Hurdle Rate (IRR - 10 yrs)
3 yrs	31%
4 yrs	21%
5 yrs	15%

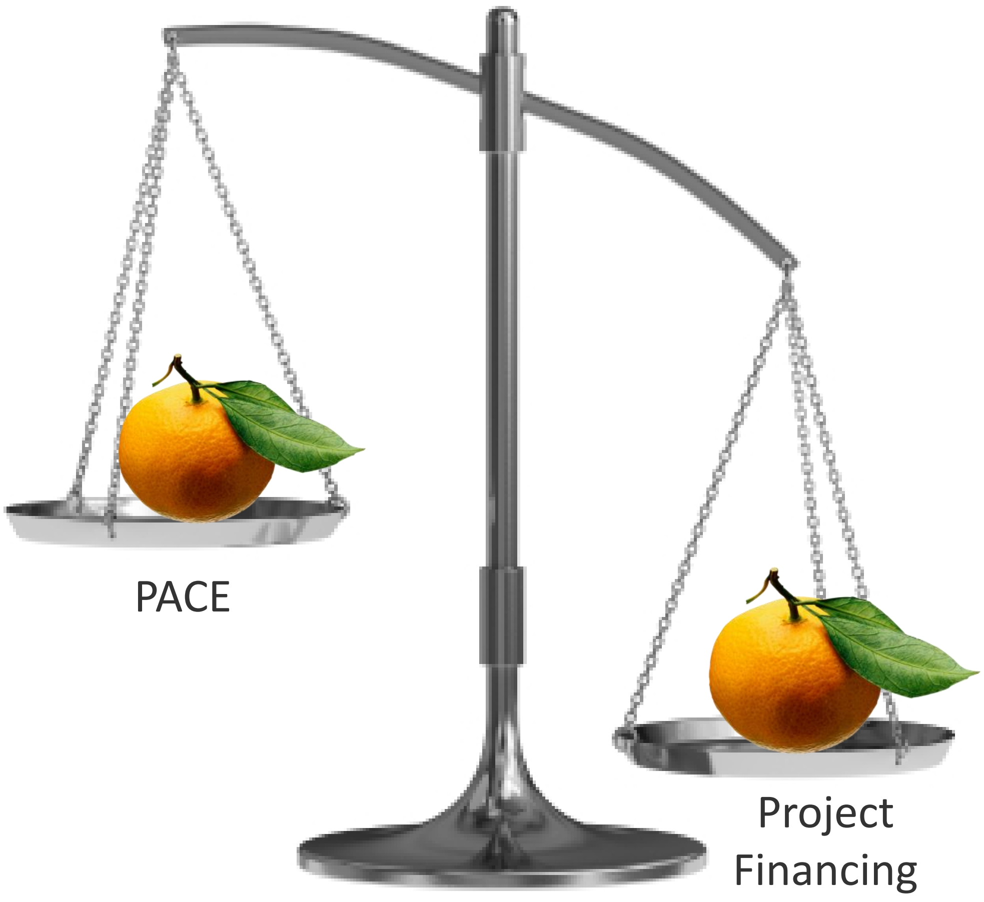
Money is Often Misunderstood

Corporate
Debt
4%

Corporate
Capital
8%

Project
Capital
21%

PACE vs Rationed Internal Capital



The Answer to the CFO Objection

"PACE can finance projects that would never be funded internally because they do not meet the company's internal hurdle rate, and in the process PACE would generate free cash flow for your company. You really should use as much of it as you can get."